

HOUSE BILL REPORT

HB 1351

As Reported by House Committee On:
Economic Development, Agriculture & Trade

Title: An act relating to a job creation tax credit.

Brief Description: Authorizing a job creation business and occupation tax credit.

Sponsors: Representatives Kilmer, Haler, Wallace, Clibborn, Skinner, Springer, Hinkle, Ericks, Morrell, Miloscia, Holmquist, Haigh, Blake, Sells, Buri, Lantz, McCoy, Pettigrew, Appleton, Linville, P. Sullivan, Strow, Kessler, Simpson, Williams, Conway and Chase.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/4/05, 2/15/05 [DPS].

Brief Summary of Substitute Bill

- Creates a business and occupation tax credit of \$650 per year per newly created full-time employment position for independently owned and operated businesses with 50 or fewer employees that offer a health care plan to all employees.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Skinner, Assistant Ranking Minority Member; Blake, Buri, Chase, Clibborn, Grant, Haler, Kenney, Kilmer, Kretz, McCoy, Morrell, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by 5 members: Representatives Kristiansen, Ranking Minority Member; Condotta, Dunn, Holmquist and Newhouse.

Staff: Tracey Taylor (786-7196).

Background:

Business and Occupation Tax

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2003, B&O tax collection totaled \$1.923 billion which represented approximately 17 percent of state revenue sources within the State General Fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the Department of Revenue (DOR) which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

Summary of Substitute Bill:

A B&O tax credit of \$650 per employment position is authorized for each new full-time employment position a business creates and maintains for three consecutive years. In order to be eligible, the business must be independently owned and operated with 50 or fewer employees and have more full time employment positions in the calendar year for which the credit is claimed as compared to the previous year. The business must also offer a health care plan to all employees. In order to verify eligibility for this credit, the Employment Security Department may provide the DOR with any information required.

The annual credit is available beginning in the first calendar year the employment position is created up to a maximum of \$1,950 per new qualified employment position. For a position filled after June 30, the position will qualify for a half credit. If the employment position is vacated, it must be filled within 60 consecutive days in order to remain eligible for the tax credit. If at any time the DOR finds that a business is not eligible for this tax credit, the amount of taxes, with interest, is immediately due.

A credit may be accrued and carried over until it is used; however no refunds may be granted for these credits. A qualified employment position means a permanent, full time employee who is paid at least one and one-half times the state minimum wage and for whom the business offers a health care plan.

No application is required to claim a credit. However, a business must complete an annual report to the DOR by March 31 of any year in which the tax credit is taken. The report must

include: the total number of employment positions, the number of qualified employment positions, the amount of the credit claimed, the number of employment positions according to wage bands; the number of employment positions that have employer-provided medical, dental, and health benefits; and any other information the DOR finds necessary to measure the results of the tax credit program. The information gathered by the DOR shall be used to study the tax credit program and report to the appropriate committees of the Legislature on the effectiveness of this tax credit on job creation, net jobs created for Washington residents and company growth. The report is due by December 1, 2011.

This tax credit program expires January 1, 2013.

Substitute Bill Compared to Original Bill:

The B&O tax credit of \$500 is increased in the substitute bill to \$650 per qualified new employment position created in Washington and maintained for three consecutive years. The substitute clarifies the maximum dollar amount that can be claimed per qualified employment position is \$1,950. The substitute also clarifies that a credit may not be claimed for hiring a person into an employment position that exists on the effective date of the act.

The definition of "eligible person" in the substitute includes language requiring a net job increase from previous year to year for which the credit is claimed. The substitute clarifies that the qualified position must be paid one and one-half the state's minimum wage. Also, definitions of "full-time", "employee" and "health care plan" are added.

The substitute prohibits businesses that receive this B&O tax credit from receiving the rural R&D or manufacturing tax credit, the international activities rural tax credit, or the manufacturing semiconductor materials tax credit. Finally, the substitute adds an emergency effective date of July 1, 2005.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: (In support) There are few tools that encourage businesses to continue to operate here. Most jobs are created from existing businesses, not attracting outside companies to relocate here. Small businesses create jobs and wealth for our society. A B&O tax credit further provides incentives to companies to utilize individuals within a community and invest in a community by providing good paying jobs with benefits. The City of Tacoma has utilized a similar tax credit program which has encouraged businesses to locate and expand in the city and as a result it generates more revenue for the city because of the multiplier effect of the jobs.

(Technical concerns) There are some technical inconsistencies within the original bill, and it was recommended beginning the credit at the start of a quarter. The DOR will work with staff to resolve the technical issue.

Testimony Against: None.

Persons Testifying: (In support) Tim Strege, William Factory Small Business Incubator; Frank Mahaffay, Washington Association of Realtors; and Susan Suess, Economic Development Board for Tacoma Pierce County.

(Technical concerns) Suzanne Mager, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.